



The
President's
Report *to the*
Board *of*
Directors

January 4, 2013

CURRENT ECONOMIC DEVELOPMENTS - January 4, 2013

Data released since your last Directors' meeting have been mostly positive, but growth likely slowed in the fourth quarter compared to the third. The housing market continues to show signs of strengthening, falling energy prices have fueled an increase in disposable income, and contributions from manufacturing have improved. However, ongoing concerns over the fiscal situation have depressed consumer attitudes, and support from business investment remains weak.

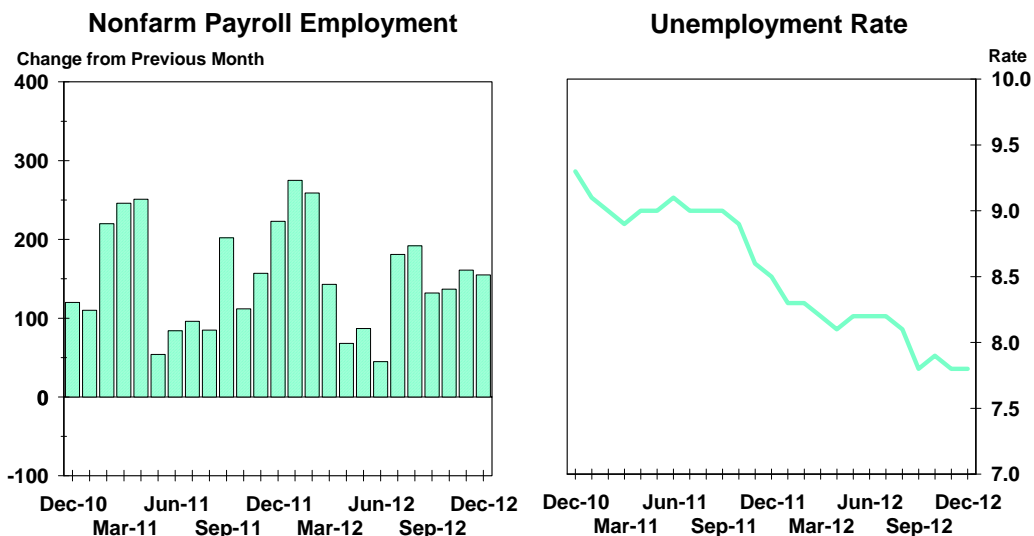
In December, nonfarm payrolls posted a modest increase, and job gains over the previous two months were revised slightly higher. The unemployment rate held steady at a nearly four-year low. Initial claims decreased in December, offsetting the rise in November, but remain above their pre-recession levels. Consumer attitudes weakened during December, and have now erased most of the improvement seen throughout the end of summer and early fall. Auto sales fell slightly in December, but total sales in 2012 were the best in five years. In November, real incomes and consumption posted their largest increases in over three years.

Primary measures of real estate activity improved in November, and overall the sector continues to show signs of recovery. New and existing home sales rose during the month, and housing starts and permits continued their upward trend, despite a small decrease in starts in November.

In the business sector, recent data has mostly improved. The ISM index rose in December, reaching above 50 to signal expansion. Durable goods orders and orders for nondefense capital goods, excluding aircraft, both increased in November, but are only slightly above their levels from a year ago. Industrial production and capacity utilization both rose in November.

Total consumer price growth decelerated in November, as did the core index. Oil prices rose slightly in December, but were down overall in the fourth quarter compared to the third.

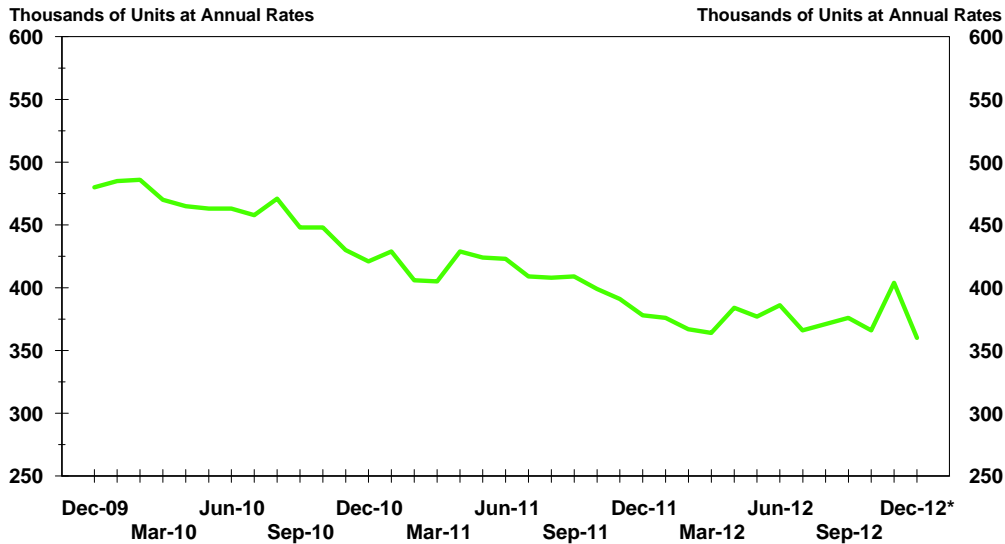
Payroll employment increased by 155,000 jobs in December. Additionally, payrolls for the previous two months were revised higher by a net 14,000 jobs, to gains of 137,000 and 161,000 in October and November, respectively. The unemployment rate remained unchanged at 7.8% in December, after being revised up by one-tenth of a percentage point in November.



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance fell in December, offsetting the spike seen in November as a result of Hurricane Sandy. However, claims remain at a level consistent with little improvement in unemployment. Weekly claims averaged about 315,000 in the two years preceding the recession.

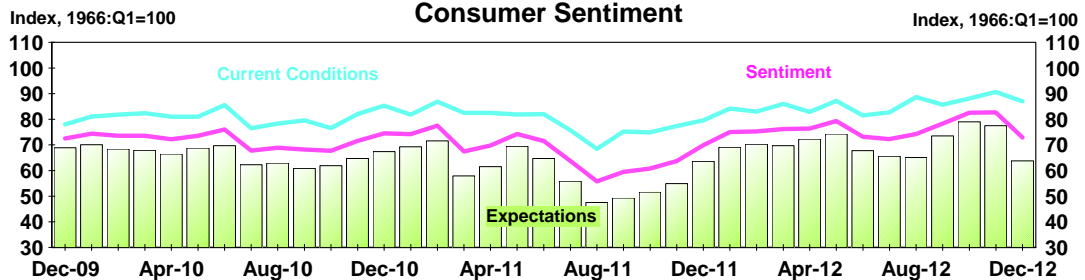
Initial Claims



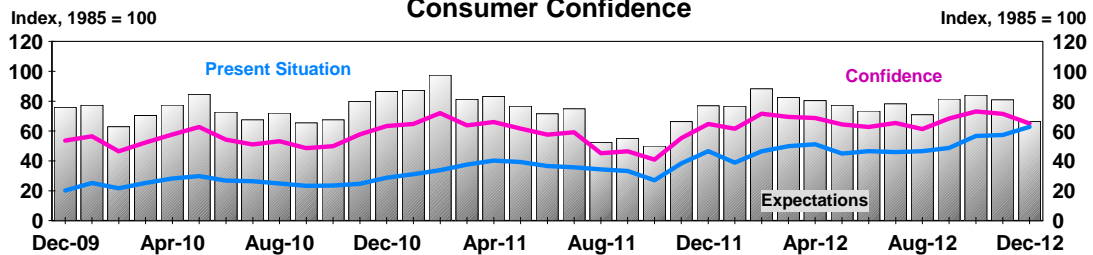
Source: Department of Labor, Employment and Training Administration / Haver Analytics. *Four-week moving average, ending December 29.

Consumer attitudes declined in December, due primarily to continued uncertainty surrounding the fiscal cliff. The decrease in sentiment reflected sizeable drops in both the expectations and current conditions indices, while the fall in confidence was due to a drop in the expectations index, as the present situation index increased.

Consumer Sentiment



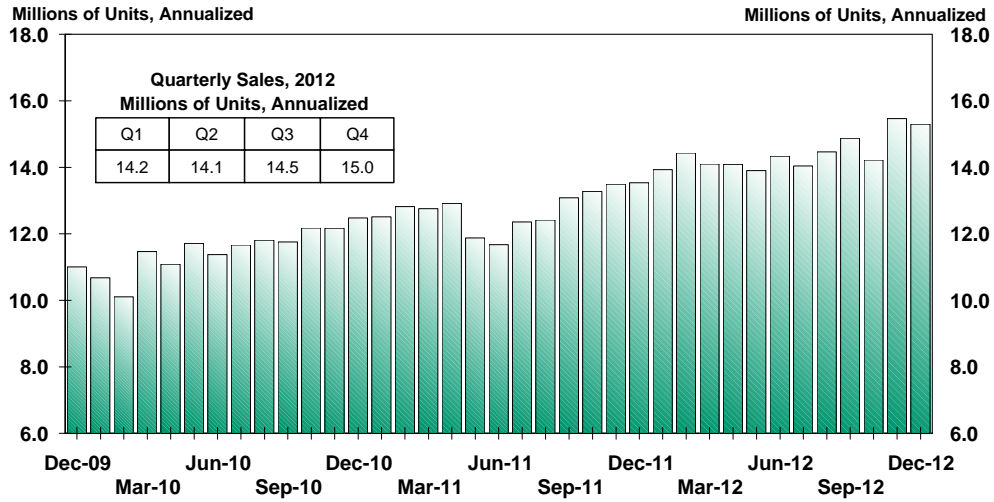
Consumer Confidence



Source: University of Michigan (top panel) and The Conference Board (bottom panel) / Haver Analytics.

Lightweight vehicle sales fell slightly in December as compared to November, but still posted another strong month. Overall, fourth quarter sales were the highest since 2008:Q1. Manufacturers expect the strong sales to continue into the new year, due to better consumer confidence and the increasing age of the fleet of cars currently on the road.

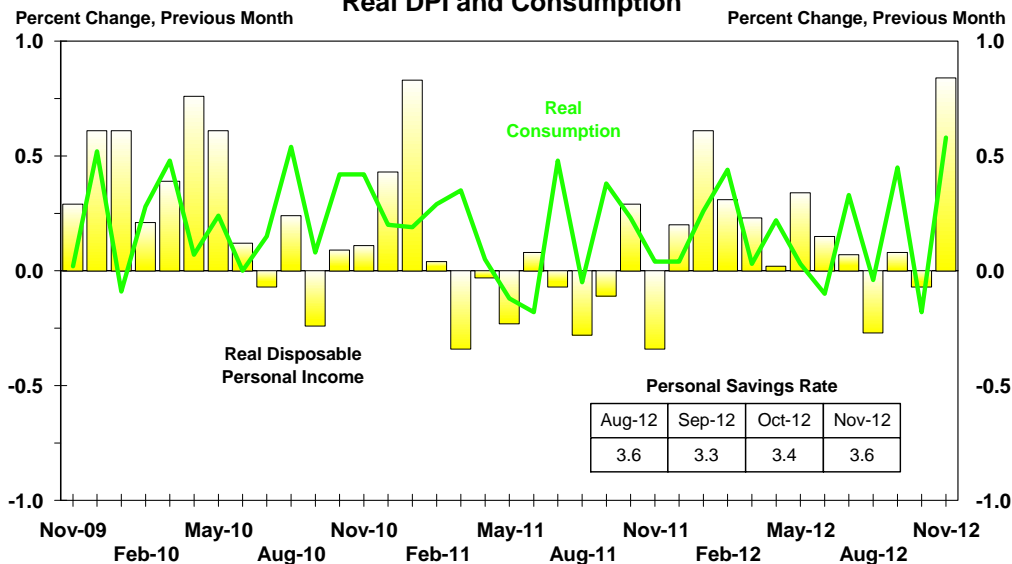
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes and consumption both jumped in November, posting their largest single-month increases in over three years, after falling in October. The November increase in consumption likely reflects the effects of Hurricane Sandy. Incomes rose faster than consumption in November, resulting in a two-tenths of a percentage point increase of the personal savings rate.

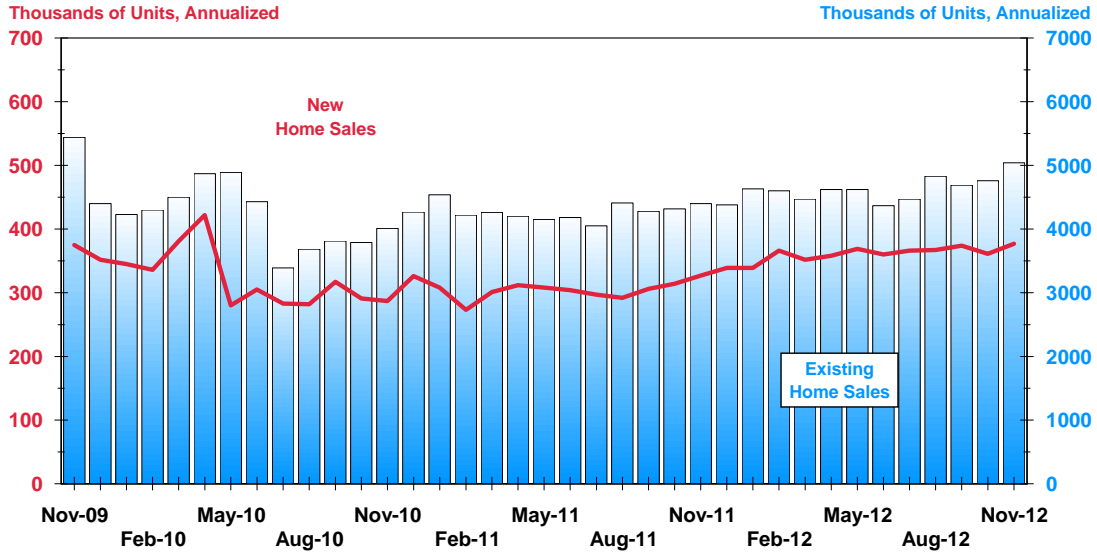
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

New home sales increased in November, more than offsetting the decline seen in October. Sales of existing homes also improved in November, reaching their highest level in three years.

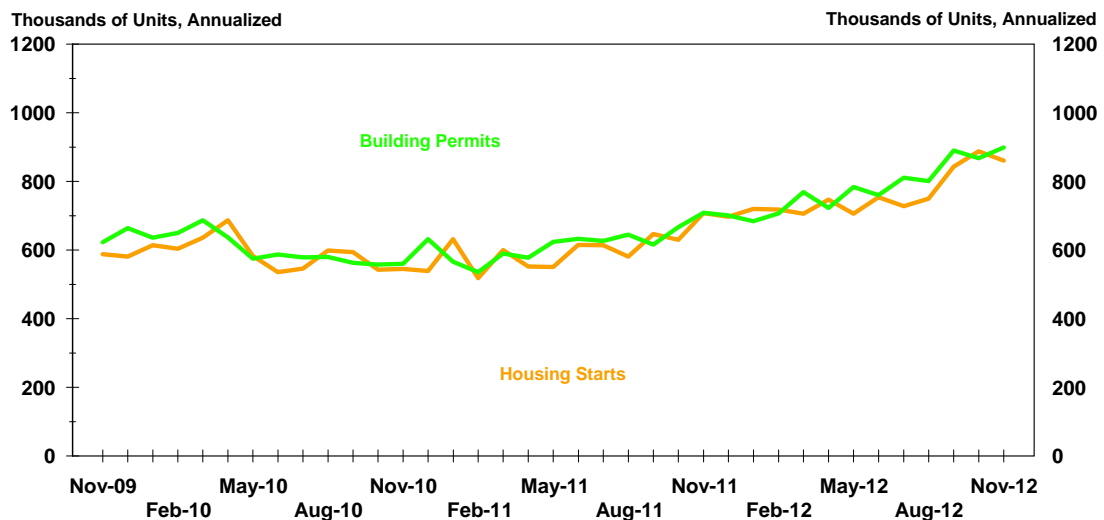
New and Existing Home Sales



Source: U.S. Census Bureau / Haver Analytics.

Housing starts fell in November, but remain well above the levels seen over the past four years. Meanwhile, building permits rose in November to their highest level since July 2008, led by an increase in multifamily permits.

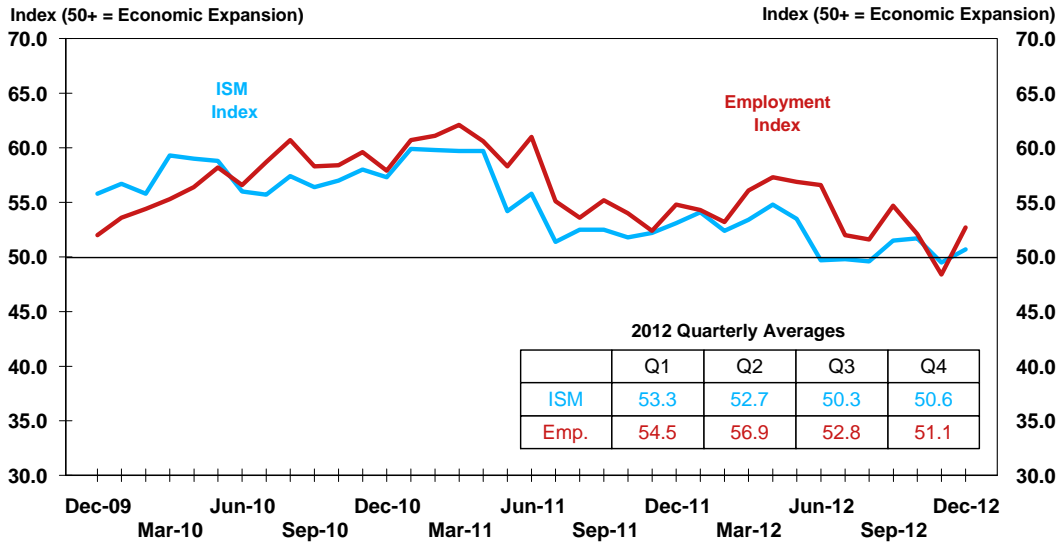
Housing Starts and Building Permits



Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index increased above 50 in December, signaling expansion, after falling below 50 in November. The improvement was due in part to the employment component of the index, which rose in December to its highest level in three months.

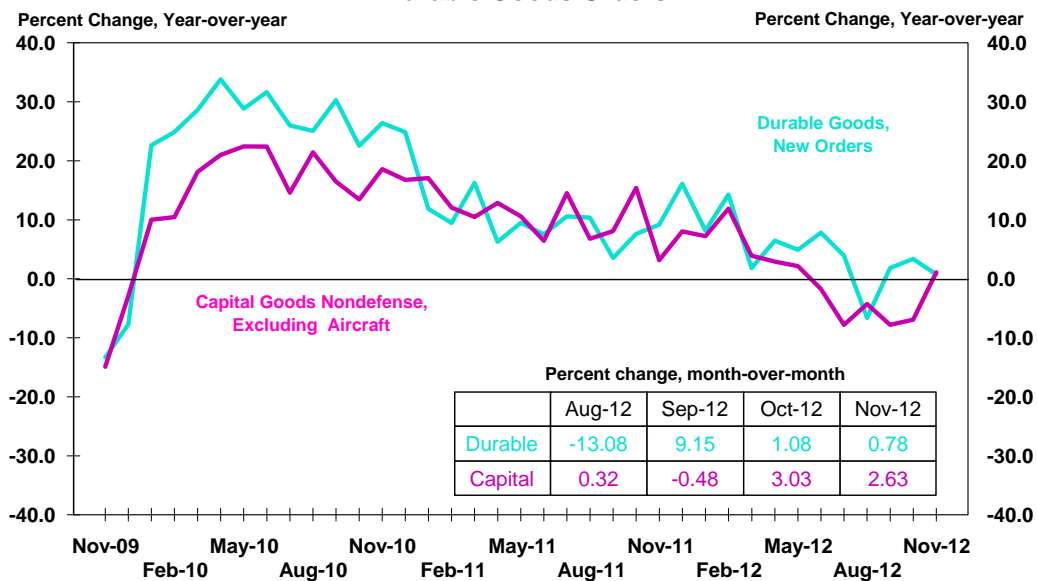
ISM Index



Source: Institute for Supply Management / Haver Analytics.

New orders for durable goods rose in November, on both a monthly and year-over-year basis. Orders for nondefense capital goods, excluding aircraft, also rose on a monthly basis in November and posted a year-over-year gain for the first time since May.

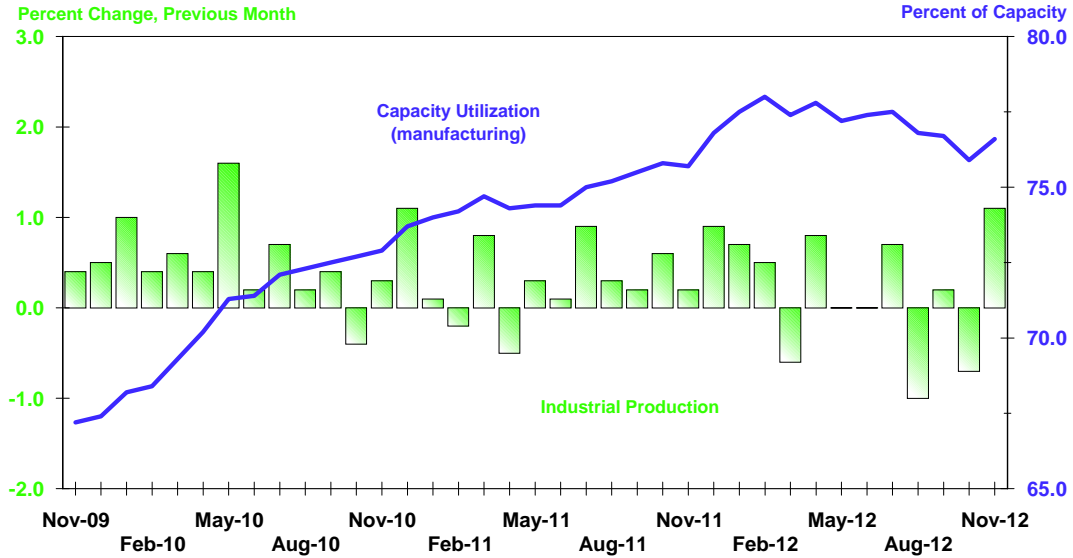
Durable Goods Orders



Source: U.S. Census Bureau / Haver Analytics.

Industrial production increased above expectations in November, likely due to the after-effects of Hurricane Sandy. Production rose in manufacturing, mining and utilities. Capacity utilization in manufacturing also rose in November, nearly offsetting the decline seen in October.

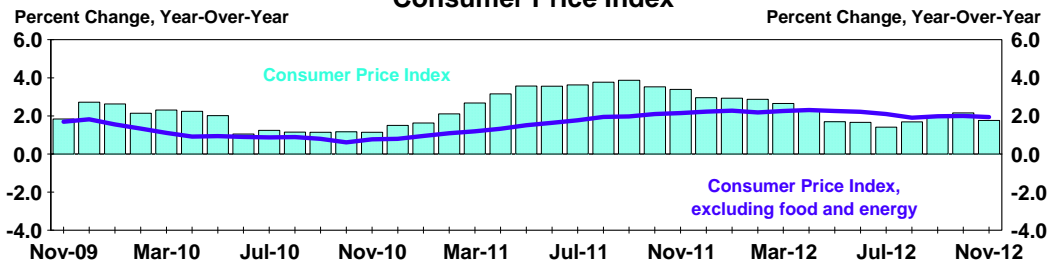
Industrial Production and Capacity Utilization



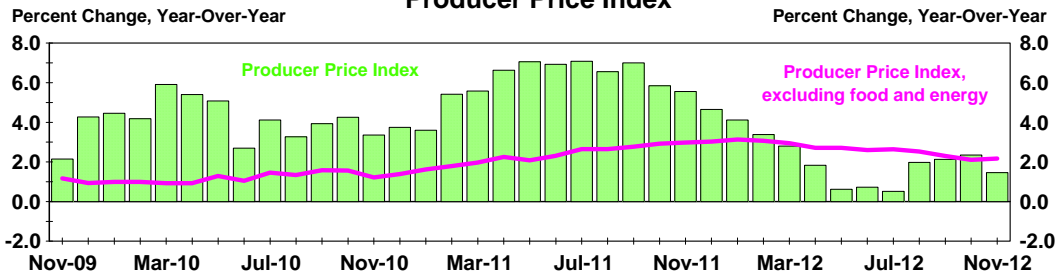
Source: Federal Reserve Board of Governors / Haver Analytics.

Headline inflation measures decelerated in November, growing at their slowest paces since the summer. Consumers have benefited from falling energy prices. The core consumer index, which excludes food and energy, also decelerated slightly in November, while the core producer index crept up a bit.

Consumer Price Index



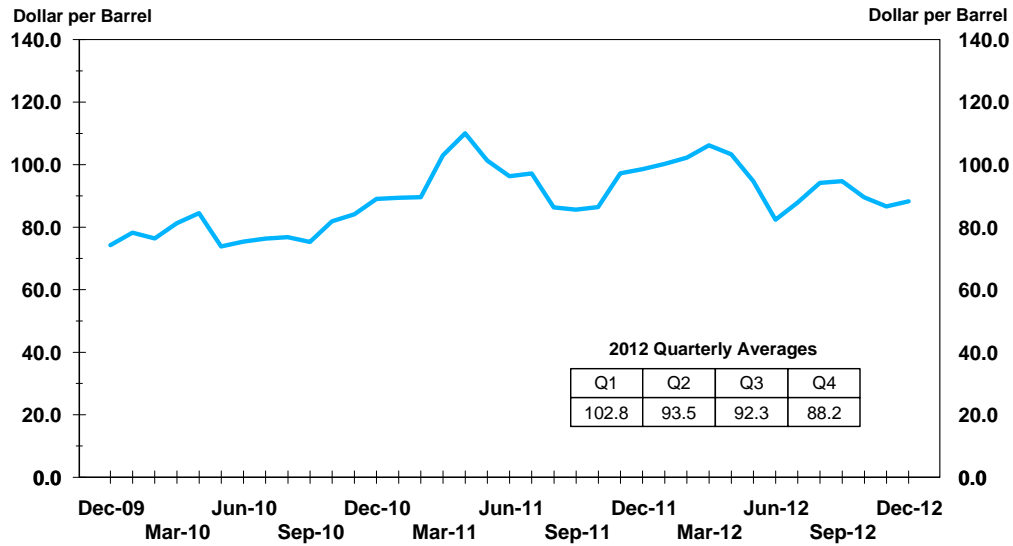
Producer Price Index



Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices rose slightly in December, but prices were down overall in the fourth quarter compared to the third. As of January 3rd, daily closing prices have ticked up to \$92.9 per barrel.

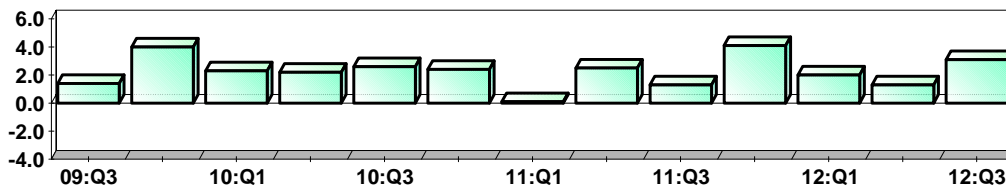
Domestic Spot Oil Price



Source: West Texas Intermediate, Wall Street Journal / Haver Analytics.

Real GDP growth was revised upward in the final third quarter estimate. The faster rate primarily reflected an upward revision to personal consumption expenditures, a downward revision to imports, and upward revisions to exports and to state and local government spending.

Real GDP

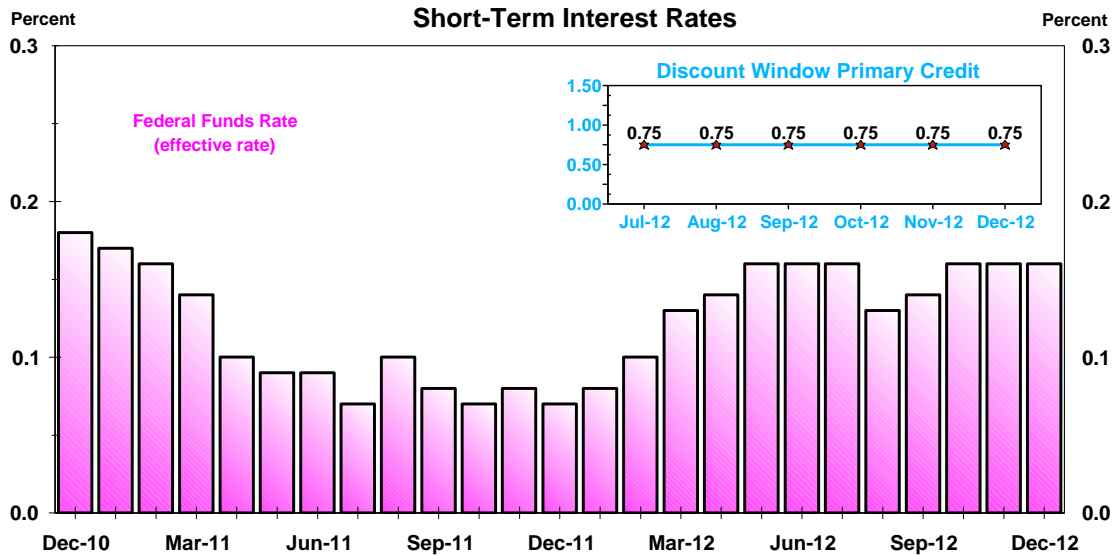


Revisions to Third Quarter Real GDP

Description	2nd Estimate	3rd Estimate
Real GDP	2.7	3.1
Consumption	1.4	1.6
Business Investment	-2.2	-1.8
Equipment & Software	-2.7	-2.6
Residential Investment	14.2	13.5
Government	3.5	3.9
Exports	1.1	1.9
Imports	0.1	-0.6
Final Sales	1.9	2.4

Source: Bureau of Economic Analysis / Haver Analytics.

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